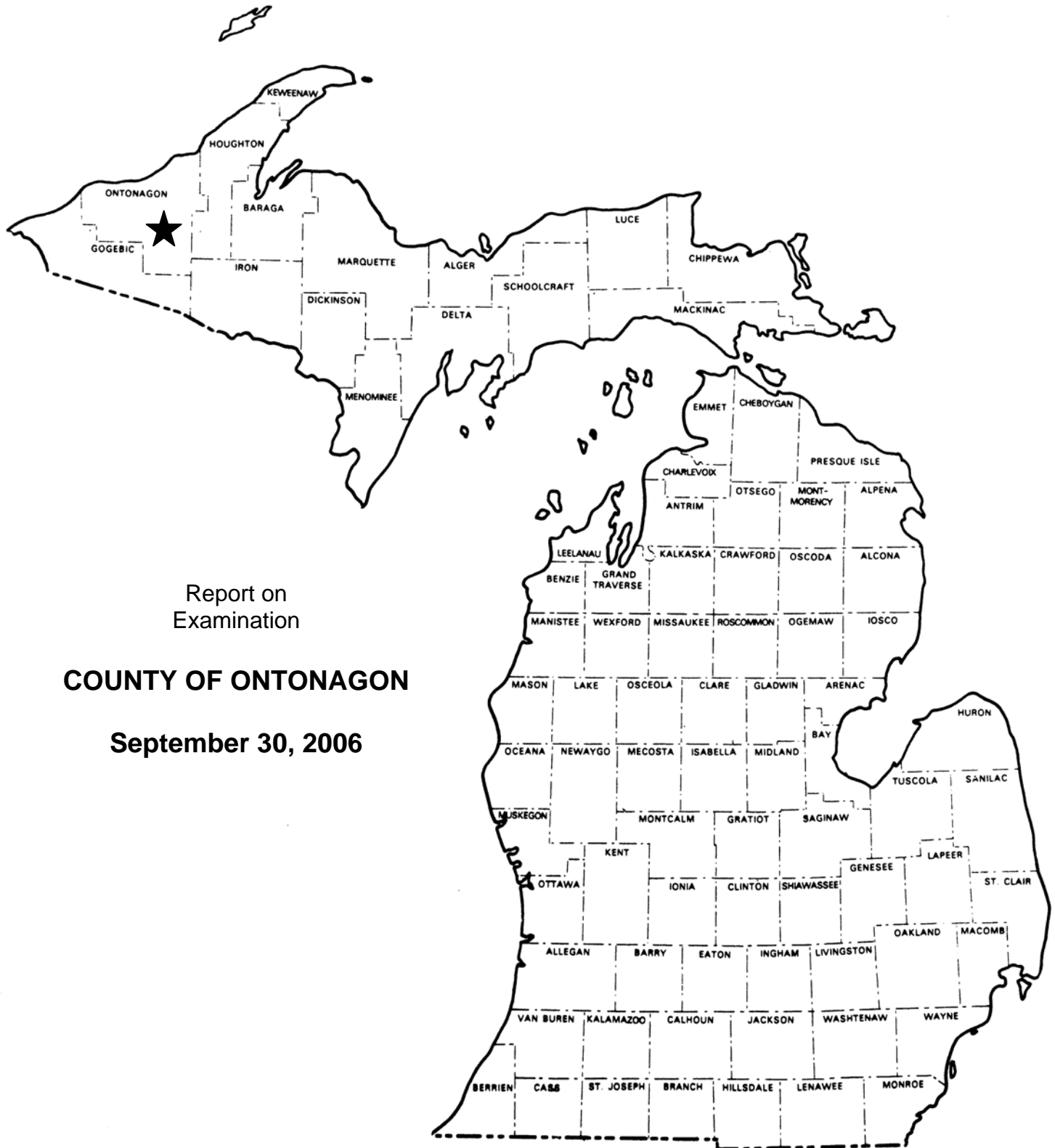


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF ONTONAGON

September 30, 2006

ONTONAGON COUNTY
BOARD OF COMMISSIONERS

Joan V. Antila
Chairperson

Hubert Lukkari

Louis J. Paulman

David Schmidt

John E. Pelkola

COURT JUDGES

Roy D. Gotham
Circuit Judge

Joseph D. Zeleznik
Probate Judge

Anders B. Tingstad
District Judge

OTHER ELECTED OFFICIALS

Diana J. Killoran
Treasurer

James R. Jessup
Prosecuting Attorney

John Gravier
Sheriff

William Turin
Mine Inspector

Judith D. Roehm
Clerk and Register of Deeds

COUNTY POPULATION--2000
7,788

STATE EQUALIZED VALUATION--2006
\$336,690,487



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 20, 2006

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise Ontonagon County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Ontonagon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, as of September 30, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2006, on our consideration of the Ontonagon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparisons for the Major Funds, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ontonagon County's basic financial statements. The accompanying supplementary and related information in Exhibits P through X are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These exhibits have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON

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COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the County, as a whole, and presents a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds increased \$485,611 from a year ago for the governmental activities. The County's net assets for the business-type activities increased \$38,985 from a year ago for the business-type activities. In a condensed format, the table below shows a comparison of the net assets as of the current year to the prior year.

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 2,237,377	\$ 2,598,641	\$ 361,264	16%
Capital Assets	<u>1,746,441</u>	<u>1,859,997</u>	<u>113,556</u>	<u>7%</u>
Total Assets	<u>3,983,818</u>	<u>4,458,638</u>	<u>474,820</u>	<u>12%</u>
Other Liabilities	172,342	161,763	(10,579)	-6%
Long-Term Liabilities	<u>208,097</u>	<u>207,885</u>	<u>(212)</u>	<u>0%</u>
Total Liabilities	<u>380,439</u>	<u>369,648</u>	<u>(10,791)</u>	<u>-3%</u>
Net Assets				
Invested in Capital Assets				
Net of Debt	1,746,441	1,859,997	113,556	7%
Restricted	1,719,066	2,094,533	375,467	22%
Unrestricted	<u>138,372</u>	<u>134,460</u>	<u>(3,912)</u>	<u>-3%</u>
Total Net Assets	<u>\$ 3,603,379</u>	<u>\$ 4,088,990</u>	<u>\$ 485,611</u>	<u>13%</u>

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 121,760	\$ 159,226	\$ 37,466	31%
Total Assets	<u>121,760</u>	<u>159,226</u>	<u>37,466</u>	<u>31%</u>
Current Liabilities	<u>(237)</u>	<u>(1,756)</u>	<u>(1,519)</u>	<u>641%</u>
Total Liabilities	<u>(237)</u>	<u>(1,756)</u>	<u>(1,519)</u>	<u>641%</u>
Net Assets				
Restricted	14,523	59,548	45,025	310%
Unrestricted	<u>107,474</u>	<u>101,434</u>	<u>(6,040)</u>	<u>-6%</u>
Total Net Assets	<u>\$ 121,997</u>	<u>\$ 160,982</u>	<u>\$ 38,985</u>	<u>32%</u>

A large portion of the County's net assets, \$1,859,997 (45.5 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported as net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$2,094,533, (51.22 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$ 134,460 (3.3 percent) represents *unrestricted net assets* that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the September 30, 2006:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 877,476	\$ 568,389	\$ (309,087)	-35%
Operating Grants and Contributions	1,246,761	1,332,427	85,666	7%
Capital Grants and Contributions	148,393	73,000	(75,393)	-51%
General Revenue				
Property Taxes	2,314,634	2,503,231	188,597	8%
Unrestricted Investment Earnings	11,571	12,379	808	7%
Rentals	1,950	2,400	450	23%
Miscellaneous	<u>9,668</u>	<u></u>	<u>(9,668)</u>	<u>-100%</u>
Total Revenues	<u>4,610,453</u>	<u>4,491,826</u>	<u>(118,627)</u>	<u>-3%</u>
Program Expenses				
General Government	1,860,063	1,774,107	(85,956)	-5%
Public Safety	1,243,497	1,040,598	(202,899)	-16%
Public Works	596,423	619,613	23,190	4%
Health and Welfare	374,260	381,846	7,586	2%
Community and Economic Development	407,955	172,702	(235,253)	-58%
Recreation and Culture	41,374	41,260	(114)	0%
Other	<u>70,027</u>	<u>53,942</u>	<u>(16,085)</u>	<u>-23%</u>
Total Expenses	<u>4,593,599</u>	<u>4,084,068</u>	<u>(509,531)</u>	<u>-11%</u>
Excess Revenues Before Transfers	16,854	407,758	390,904	2319%
Transfers				
Transfers In	89,258	106,230	16,972	19%
Transfers (Out)	<u>(26,575)</u>	<u>(28,377)</u>	<u>(1,802)</u>	<u>7%</u>
Changes in Net Assets	<u>79,537</u>	<u>485,611</u>	<u>406,074</u>	<u>511%</u>
Ending Net Assets	<u><u>\$ 3,603,379</u></u>	<u><u>\$ 4,088,990</u></u>	<u><u>\$ 485,611</u></u>	<u><u>13%</u></u>

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. The property tax revenue increased by \$360,988 for the summer taxes due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the general fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and set aside that amount into the Revenue Sharing Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment. During 2006, the winter taxes decreased by \$334,093 as a result of a decrease in the milage from 6.3046 mills in 2005 to 4.02652 mills in 2006. There was also an increase in the collection of real property taxes of \$31,304 in 2006 as compared to 2005.

The charges for services decreased by \$266,620 and related expenses decreased by \$235,253 for the Economic Development Revolving Loan Fund activities for 2006.

General government expenditures decreased by \$85,956 mainly due to a decrease in health insurance and elimination of a part-time postion in the copporative extension office.

Public Safety expenditures decreased by \$46,605 in the Homeland Security Grant activity, as the grants went down during 2006 and the consultant fees ended as well as a reduction of training and equipment from 2005. The 911 Fund expended \$156,570 less in 2006 due to the purchase of new radios and pagers for all public safety departments in the County in 2005.

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 123,483	\$ 169,219	\$ 45,736	37%
Total Revenues	<u>123,483</u>	<u>169,219</u>	<u>45,736</u>	<u>37%</u>
Program Expenses				
Operating Expenses	<u>11,925</u>	<u>24,004</u>	<u>12,079</u>	<u>101%</u>
Total Expenses	<u>11,925</u>	<u>24,004</u>	<u>12,079</u>	<u>101%</u>
Excess Revenues Before Transfers	111,558	145,215	33,657	30%
Transfers				
Transfers (Out)	<u>(89,258)</u>	<u>(106,230)</u>	<u>(16,972)</u>	<u>19%</u>
Change in Net Assets	<u>22,300</u>	<u>38,985</u>	<u>16,685</u>	<u>75%</u>
Ending Net Assets	<u>\$ 121,997</u>	<u>\$ 160,982</u>	<u>\$ 38,985</u>	<u>32%</u>

The change in net assets is the result of an increase in the amount that was transferred to other funds (\$16,972); and the Foreclosures Fund, which had revenues of \$68,420 and expenses of \$23,395.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed fiscal year 2006, its governmental funds reported are *combined* fund balances of \$1,914,114, an increase of \$455,273. The net changes are summarized below:

	Governmental Activities 2005	Governmental Activities 2006	Amount Difference 2006	Percentage Difference 2006
Revenues				
Taxes	\$ 2,315,151	\$ 2,505,359	\$ 190,208	8%
Licenses and Permits	2,559	2,716	157	6%
Federal Grants	510,312	474,635	(35,677)	-7%
State Grants	720,457	844,725	124,268	17%
Contributions From Local Units	4,282	4,282	-	0%
Charges for Services	507,114	490,991	(16,123)	-3%
Fines and Forfeits	23,099	22,160	(939)	-4%
Interest and Rentals	40,814	42,219	1,405	3%
Other Revenue	341,008	188,169	(152,839)	-45%
Total Revenues	4,464,796	4,575,256	110,460	2%
Expenses				
General Government	1,818,011	1,729,413	(88,598)	-5%
Public Safety	1,202,538	1,004,564	(197,974)	-16%
Public Works	505,167	530,175	25,008	5%
Health and Welfare	508,536	461,614	(46,922)	-9%
Community and Economic Development	273,380	92,624	(180,756)	-66%
Recreation and Cultural	40,619	40,505	(114)	0%
Other	70,027	53,942	(16,085)	-23%
Capital Outlay	203,969	276,436	72,467	36%
Debt Service				
Principal	8,563	8,563	-	0%
Total Expenditures	4,630,810	4,197,836	(432,974)	-9%
Excess of Revenues Over (Under) Expenditures	(166,014)	377,420	543,434	-327%
Other Financing Sources (Uses)				
Interfund Transfers In				
Primary Government	795,530	725,070	(70,460)	-9%
Interfund Transfers (Out)				
Primary Government	(706,272)	(618,840)	87,432	-12%
Component Unit	(26,575)	(28,377)	(1,802)	7%
Total Other Financing Sources (Uses)	62,683	77,853	15,170	24%
Beginning Fund Balance	1,562,172	1,458,841	(103,331)	-7%
Ending Fund Balance	\$ 1,458,841	\$ 1,914,114	\$ 455,273	31%

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

Our analysis of the County's major funds is detailed in the Notes to the Financial Statements, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2005 include the General Fund, the Public Transit Fund, the 911 Service Fund, the Economic Development Revolving Loan Fund, the Revenue Sharing Fund and the 2005 Tax Payment Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all county revenues and expenditures are recorded in the General Fund. The most significant are the general government, public safety, public works, and health and welfare which incurred expenses of \$1,729,413, \$1,004,564, \$530,175, and \$461,614, respectively, during 2006.

The County's total governmental revenues increased by approximately 2% primarily due to the property tax revenue increasing by \$190,208 (or 8%), State Grants increasing by \$124,268 and a decrease in the Other Revenue of \$152,839, which was primarily related to the Economic Development Revolving Loan Fund.

Expenditures decreased by approximately \$432,974 or 9% mainly due to the general government expenditures decreasing by \$58,385 for a decrease in health insurance premiums and the elimination of a part-time position the cooperative extension office. Public Safety expenditures decreasing in the Sheriff's Department due to a decrease in health insurance premiums. The 911 Fund expended \$156,570 more in the prior year due to the purchase of new radios and pagers for all public safety departments in the County. The Economic Development Revolving Fund also had a decrease in expenditures of \$265,756 during 2006.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's revenue budget was increased by \$477,075 (16% above the original budget) during fiscal year 2006. Actual General Fund revenue and other financing sources totaled \$3,418,748, which was \$25,792 above the final amended budget. The largest variances were: increase in tax revenue and decrease in anticipated Federal grants.

The County's expenditure budget was increased by \$478,075 (16% over the original budget) during fiscal year 2006. There was an increase in capital outlay of \$62,910 and an increase in appropriations of \$411,003 during 2006. Actual General Fund expenditures and other financing uses totaled \$3,348,065, which was \$40,538 less than the final amended budget. The largest variances were: increase in anticipated judicial expenditures, sheriff department expenditures and airport expenditures.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At the end of 2006, the County had \$1,859,997 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included land improvements for \$117,857, office and other equipment for \$67,838 and vehicles for \$90,741. See Note G of the notes to the financial statements for more information. No debt was incurred for the asset acquisitions.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total debt outstanding of \$64,226 in loans and vested employee benefits of \$143,659.

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factor in preparing the 2007 fiscal year budget:

Union agreements allowed for a 25 cent per hour increase for Probate Court and Courthouse/Transit employees; 2% increase for the Sheriff's Department employees. Raises for nonunion employees were authorized at 25 cents per hour and Department Heads at \$750 per year. Health insurance costs were budgeted at a 10% increase.

All revenues were budgeted conservatively, not knowing what the State's financial condition would be and the availability of grant funds.

Travel funds will be limited only to mandatory conferences and travel necessary to job performance.

Capital outlay will also be limited to absolute necessities.

Service contracts/maintenance agreements were budgeted at a 3 to 5 percent increase. If long term (3-5 year) contracts propose a substantial savings to the County, the County board usually opts for them.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ontonagon County Clerk's Office at the Ontonagon County Courthouse, 725 Greenland Road, Ontonagon, Michigan 49953.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>			Component Units
	Governmental Activities	Business-Type Activities	Total	
Current Assets				
Cash	\$ 1,257,155	\$ 60,817	\$ 1,317,972	\$ 1,399,421
Receivables (Net)				
Current Summer Property Taxes	303,173		303,173	
Unpaid Personal Property Taxes	10,670	428,409	439,079	5,739
Accounts	8,908		8,908	61,071
Interest	3,656		3,656	
Economic Development Loans	512,094		512,094	
Due From Townships	8,138		8,138	
Due From State	134,291		134,291	406,069
Due From Federal Government	4,567		4,567	
Due From Local Units of Governments	6,388		6,388	156,180
Inventories				1,086,655
Internal Balances	330,000	(330,000)	-	
Prepays	19,601		19,601	-
Total Current Assets	2,598,641	159,226	2,757,867	3,115,135
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	1,859,997		1,859,997	4,247,709
Total Noncurrent Assets	1,859,997	-	1,859,997	4,247,709
Total Assets	\$ 4,458,638	\$ 159,226	\$ 4,617,864	\$ 7,362,844
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 101,256		\$ 101,256	\$ 453,611
Due to State	3,984		3,984	77,079
Stampage Deposits Payable	200		200	
Accrued Liabilities	51,377		51,377	
Redemption Certificate Fees		\$ (1,756)	(1,756)	
Deferred Revenue	4,946		4,946	
Total Current Liabilities	161,763	(1,756)	160,007	530,690
Noncurrent Liabilities				
Advances From State			-	410,675
Deferred Revenue			-	318,876
Loans Payable--Due Within One Year	8,564		8,564	
Loans Payable	55,662		55,662	
Installment Loan Payable			-	
Vested Employee Benefits Payable	143,659		143,659	602,360
Total Noncurrent Liabilities	207,885	-	207,885	1,331,911
Total Liabilities	369,648	(1,756)	367,892	1,862,601
Net Assets				
Investment in Capital Assets--Net of Related Debt	1,859,997		1,859,997	4,247,709
Restricted for				
Family Counseling	1,469		1,469	
Act 302 Officer Training	3,174		3,174	
Economic Development Grants/Loans	868,566		868,566	
Special Revenue Programs	1,221,324		1,221,324	
Foreclosures		59,548	59,548	
County Road Projects				1,127,948
Building Renovations				36,303
Unrestricted	134,460	101,434	235,894	88,283
Total Net Assets	\$ 4,088,990	\$ 160,982	\$ 4,249,972	\$ 5,500,243

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			
					Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government								
Governmental Activities								
General Government	\$ 1,774,107	\$ 291,806	\$ 485,801		\$ (996,500)		\$ (996,500)	
Public Safety	1,040,598	129,447	238,851	\$ 15,000	(657,300)		(657,300)	
Public Works	619,613	77,611	413,446	58,000	(70,556)		(70,556)	\$ 5,531,232
Health and Welfare	381,846	-	59,540		(322,306)		(322,306)	
Community and Economic Development	172,702	23,964	134,789	-	(13,949)		(13,949)	117,298
Recreation and Culture	41,260	45,561	-		4,301		4,301	
Other	53,942				(53,942)		(53,942)	
Total Governmental Activities	4,084,068	568,389	1,332,427	73,000	(2,110,252)	\$ -	(2,110,252)	5,648,530
Business-Type Activities								
Delinquent Tax Funds Combined	24,004	169,219				145,215	145,215	
Total Business-Type Activities	24,004	169,219	-	-	-	145,215	145,215	-
Total Primary Government	\$ 4,108,072	\$ 737,608	\$ 1,332,427	\$ 73,000	\$ (2,110,252)	\$ 145,215	\$ (1,965,037)	\$ -
Component Units								
Road Commission	\$ 5,531,232	\$ 1,664,203	\$ 3,466,312	\$ 480,825				\$ 80,108
Economic Development Corporation	117,298	66,105	11,787	-				(39,406)
Total Component Units	\$ 5,648,530	\$ 1,730,308	\$ 3,478,099	\$ 480,825	\$ -	\$ -	\$ -	\$ 40,702
General Revenues								
Property Taxes					\$ 2,503,231		\$ 2,503,231	\$ 842,127
Unrestricted Investment Earnings					12,379		12,379	2,424
Rentals					2,400		2,400	
Transfers In					106,230		106,230	28,377
Transfers In (Out)					(28,377)	\$ (106,230)	(134,607)	
Total General Revenues--Special Items and Transfers					2,595,863	(106,230)	2,489,633	872,928
Change in Net Assets					485,611	38,985	524,596	913,630
Net Assets--Beginning					3,603,379	121,997	3,725,376	4,586,613
Net Assets--Ending					\$ 4,088,990	\$ 160,982	\$ 4,249,972	\$ 5,500,243

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006

EXHIBIT C

SPECIAL REVENUE FUNDS							
	General	Public Transit	911 Service	Economic Development Revolving Loan	Revenue Sharing	Non-Major Governmental Funds	Total Governmental Funds
ASSETS							
Current Assets							
Cash		\$ 192,052	\$ 346,911	\$ 352,816	\$ 144,349	\$ 221,027	\$ 1,257,155
Receivables							
Current Summer Taxes	\$ 303,173						303,173
Unpaid Personal Property Taxes	10,670						10,670
Accounts		4,157	4,206			545	8,908
Interest				3,656			3,656
Economic Development Loans				512,094			512,094
Due From Other Funds--Primary Government					309,105		309,105
Due From Townships	8,138						8,138
Due From State	73,832	29,412	23,158			7,889	134,291
Due From Federal Government	4,567						4,567
Due From Other Agencies	6,388						6,388
Prepaid Expense	11,491	4,072				4,038	19,601
Total Current Assets	418,259	229,693	374,275	868,566	453,454	233,499	2,577,746
Noncurrent Assets							
Long-Term Advances to Other Funds--Primary Government	330,000						330,000
Total Noncurrent Assets	330,000	-	-	-	-	-	330,000
Total Assets	\$ 748,259	\$ 229,693	\$ 374,275	\$ 868,566	\$ 453,454	\$ 233,499	\$ 2,907,746
LIABILITIES AND FUND EQUITY							
Current Liabilities							
Accounts Payable	\$ 64,190	\$ 13,221	\$ 15,280			\$ 8,565	\$ 101,256
Due to State of Michigan		1,582				2,402	3,984
Due to Other Funds--Primary Government	309,105						309,105
Stumpage Deposits Payable						200	200
Accrued Liabilities	27,976	23,143				258	51,377
Total Current Liabilities	401,271	37,946	15,280	\$ -	\$ -	11,425	465,922
Noncurrent Liabilities							
Deferred Revenue	10,670			512,094		4,946	527,710
Total Liabilities	411,941	37,946	15,280	512,094	-	16,371	993,632
Fund Equity							
Fund Balances							
Reserved for							
Long-Term Advances	165,000						165,000
Family Counseling	1,469						1,469
Act 302 Officer Training	3,174						3,174
Economic Development Grants/Loans				356,472			356,472
Revenue Sharing Fund					453,454		453,454
Special Revenue Programs		191,747	358,995			166,104	716,846
Unreserved--Undesignated	166,675					51,024	217,699
Total Fund Equity	336,318	191,747	358,995	356,472	453,454	217,128	1,914,114
Total Liabilities and Fund Equity	\$ 748,259	\$ 229,693	\$ 374,275	\$ 868,566	\$ 453,454	\$ 233,499	\$ 2,907,746
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets							
Fund Balance--Total Governmental Funds							\$ 1,914,114
Amounts reported for governmental activities in the Statement of Net Assets are different because:							
Capital assets used in governmental activites are not financial resources and, therefore, are not reported in the funds.							
							1,859,997
Revenues that do not provide current financial resources are not reported as revenue in the funds.							
							522,764
Certain liabilities, such as bonds payable, interest payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.							
							(207,885)
Total Net Assets							\$ 4,088,990

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

EXHIBIT D

SPECIAL REVENUE FUNDS							
	General	Public Transit	911 Service	Economic Development Revolving Loan Fund	Revenue Sharing	Non-Major Governmental	Total Governmental Funds
Revenues							
Taxes and Penalties	\$2,138,400	\$204,470				\$ 162,489	\$2,505,359
Licenses and Permits	2,716						2,716
Federal Grants	178,129	134,006				162,500	474,635
State Grants	463,925	218,986	\$ 90,836			70,978	844,725
Contributions From Local Units	4,282						4,282
Charges for Services	325,310	63,909	86,262			15,510	490,991
Fines and Forfeits	2,280					19,880	22,160
Interest and Rentals	9,718	3,104		\$ 23,964	\$ 5,061	372	42,219
Other Revenue	27,641			81,302		79,226	188,169
Total Revenues	3,152,401	624,475	177,098	105,266	5,061	510,955	4,575,256
Expenditures							
Current							
General Government	1,705,116					24,297	1,729,413
Public Safety	880,418		124,146				1,004,564
Public Works	20,679	507,860				1,636	530,175
Health and Welfare	157,664					303,950	461,614
Community and Economic Development	7,624			-	-	85,000	92,624
Recreation and Cultural	22,452					18,053	40,505
Other	53,942						53,942
Capital Outlay	62,884	58,000	8,800			146,752	276,436
Debt Service							
Principal	8,563						8,563
Total Expenditures	2,919,342	565,860	132,946	-	-	579,688	4,197,836
Excess of Revenues Over (Under) Expenditures	233,059	58,615	44,152	105,266	5,061	(68,733)	377,420
Other Financing Sources (Uses)							
Interfund Transfers In--Primary Government	266,347				389,663	69,060	725,070
Interfund Transfers (Out)--Primary Government	(428,723)			(30,000)	(153,527)	(6,590)	(618,840)
Interfund Transfers (Out)--Component Unit				(28,377)			(28,377)
Total Other Financing Sources (Uses)	(162,376)	-	-	(58,377)	236,136	62,470	77,853
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	70,683	58,615	44,152	46,889	241,197	(6,263)	455,273
Fund Balance (Deficit)--October 1, 2005	265,635	133,132	314,843	309,583	212,257	223,391	1,458,841
Fund Balance (Deficit)--September 30, 2006	\$ 336,318	\$191,747	\$358,995	\$ 356,472	\$453,454	\$ 217,128	\$1,914,114

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ 455,273

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities the costs of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add--Capital Outlay	276,436
Deduct--Depreciation Expense	(162,880)

Revenues earned, but not available for current resources, are not reported in the funds.

Economic Development--Net 2006 Loans Less Loan Repayments	(81,302)
Tax Revenues	(2,127)

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	8,563
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Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
the funds.

Net (Increase) Decrease in Compensated Absences	<u>(8,352)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 485,611</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2006**

EXHIBIT E

	ENTERPRISE FUNDS BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2005	Non-Major Enterprise Funds	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 331	\$ 60,486	\$ 60,817
Delinquent Taxes Receivable	354,711	74,561	429,272
Forfeiture Certificate Fee Receivable		(863)	(863)
Total Current Assets	355,042	134,184	489,226
Total Assets	\$ 355,042	\$ 134,184	\$ 489,226
<u>LIABILITIES</u>			
Current Liabilities			
Redemption Certificate Fees		\$ (1,756)	\$ (1,756)
Total Current Liabilities	\$ -	(1,756)	(1,756)
Noncurrent Liabilities			
Advance From General Fund	327,000	3,000	330,000
Total Noncurrent Liabilities	327,000	3,000	330,000
Total Liabilities	327,000	1,244	328,244
<u>NET ASSETS</u>			
Restricted Net Assets--Foreclosures		59,548	59,548
Unrestricted Net Assets	28,042	73,392	101,434
Total Net Assets	\$ 28,042	\$ 132,940	\$ 160,982

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended September 30, 2006

EXHIBIT F

	ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2005	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Interest and Penalties on Taxes	\$ 28,042	\$ 72,757	\$ 100,799
Other Foreclosure Fees and Charges		68,420	68,420
Total Operating Revenues	28,042	141,177	169,219
Operating Expenses			
Supplies and Postage		1,630	1,630
Contract Services		17,899	17,899
Filing and Visitation Fees		2,423	2,423
Advertising		2,052	2,052
Total Operating Expenses	-	24,004	24,004
Net Operating Income (Loss)			
Before Operating Transfers	28,042	117,173	145,215
Interfund Transfers			
Transfers (Out) to General Fund		(106,230)	(106,230)
Change in Net Assets	28,042	10,943	38,985
Total Net Assets--October 1, 2005	-	121,997	121,997
Total Net Assets--September 30, 2006	\$ 28,042	\$ 132,940	\$ 160,982

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

EXHIBIT G

	ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2005	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities			
Interest and Penalties on Taxes	\$ 28,042	\$ 72,757	\$ 100,799
Other Foreclosure Fees and Charges		68,420	68,420
Operating Expenses		(24,004)	(24,004)
Delinquent Taxes Collected	361,437	326,471	687,908
Delinquent Taxes Purchased	(716,148)		(716,148)
Net Cash Provided by Operating Activities	(326,669)	443,644	116,975
Cash Flows From Noncapital Financing Activities			
Advances From Other Funds	560,000	-	560,000
Return of Advances From Other Funds	(233,000)	(296,000)	(529,000)
(Increase) or Decrease in Forfeiture Certificate Fee Receivable		2,330	2,330
Increase or (Decrease) in Redemption Certificate Payable		(1,519)	(1,519)
Transfers In (Out)		(106,230)	(106,230)
Net Cash Provided by Noncapital Financing Activities	327,000	(401,419)	(74,419)
Net Increase (Decrease) in Cash and Cash Equivalents	331	42,225	42,556
Cash and Cash Equivalents at Beginning of Year	-	18,261	18,261
Cash and Cash Equivalents at End of Year	\$ 331	\$ 60,486	\$ 60,817
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	\$ 28,042	\$ 117,173	\$ 145,215
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
(Increase) Decrease in Taxes Receivable	(354,711)	326,471	(28,240)
Net Cash Provided by Operating Activities	\$ (326,669)	\$ 443,644	\$ 116,975

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2006**

EXHIBIT H

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 544,853
Total Assets	<u>\$ 544,853</u>
Liabilities	
Due to Other Funds	\$ (2,299)
Due to Schools	(15,961)
Due to Townships	(234)
Due to Villages	735
Due to State of Michigan	542,798
Undistributed Interest	110
Undistributed Penal Fines	10,409
Undistributed Tax Collections	533
Other Trust Payable	<u>8,762</u>
Total Liabilities	<u>\$ 544,853</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2006

EXHIBIT I

	MAJOR COMPONENT UNIT	NON-MAJOR COMPONENT UNIT	
	Road Commission	Economic Development Corporation	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 1,270,029	\$ 129,392	\$ 1,399,421
Receivables			
Taxes	5,739		5,739
Accounts	53,833	7,238	61,071
Due From State	406,069		406,069
Due From Townships	156,180		156,180
Inventories	1,086,655		1,086,655
Total Current Assets	2,978,505	136,630	3,115,135
Noncurrent Assets			
Capital Assets (Net)	4,247,709		4,247,709
Total Noncurrent Assets	4,247,709	-	4,247,709
Total Assets	\$ 7,226,214	\$ 136,630	\$ 7,362,844
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 441,567	\$ 12,044	\$ 453,611
Accrued Liabilities	77,079		77,079
Total Current Liabilities	518,646	12,044	530,690
Noncurrent Liabilities			
Advances From State	410,675		410,675
Long-Term Advances From			
Deferred Revenue	318,876		318,876
Vested Employee Benefits Payable	602,360		602,360
Total Noncurrent Liabilities	1,331,911	-	1,331,911
Total Liabilities	1,850,557	12,044	1,862,601
Net Assets			
Investment in Capital Assets	4,247,709		4,247,709
Restricted for County Road Projects	1,127,948		1,127,948
Restricted for Building Renovations		36,303	36,303
Unrestricted		88,283	88,283
Total Net Assets	\$ 5,375,657	\$ 124,586	\$ 5,500,243

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended September 30, 2006

EXHIBIT J

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road	Economic Development Corporation	Total
Road Commission							
Public Works	\$ 5,531,232	\$ 1,664,203	\$ 3,466,312	\$ 480,825	\$ 80,108		\$ 80,108
Total Road Commission	5,531,232	1,664,203	3,466,312	480,825	80,108	\$ -	80,108
Economic Development Corporation							
Community and Economic Development	117,298	66,105	11,787			(39,406)	(39,406)
Total Economic Development Corporation	\$ 117,298	\$ 66,105	\$ 11,787	\$ -	-	(39,406)	(39,406)
General Revenues							
Property Taxes					842,127		842,127
Investment Earnings						2,424	2,424
Transfers							
Interfund Transfers In From Primary Government						28,377	28,377
Total General Revenues--Special Items and Transfers					842,127	30,801	872,928
Change in Net Assets					922,235	(8,605)	913,630
Net Assets--Beginning of Year					4,453,422	133,191	4,586,613
Net Assets--End of Year					\$ 5,375,657	\$ 124,586	\$ 5,500,243

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

The accounting policies of Ontonagon County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ontonagon County:

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ontonagon County is a municipal corporation governed by an elected five member board of commissioners. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units discussed in Note B are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the government-wide financial statements (Exhibits A and B) include the financial data of the Ontonagon County Road Commission and the Ontonagon County Economic Development Corporation (EDC). These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Each discretely presented component unit is reported in a separate column in the Component Units' Statement of Net Assets (Exhibit I) and the Statement of Activities (Exhibit J).

Discretely Presented Component Units

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

The Ontonagon County Economic Development Corporation (EDC), was established in 1976 pursuant to the provisions of Public Act (PA) 338 of 1974, as amended. The EDC is included as part of the Ontonagon County entity for financial reporting purposes because its board is appointed by the Ontonagon County Board of Commissioners. A significant portion of its operating budget is funded by county appropriations. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county. The financial statements of the County Economic Development Corporation are included in the special revenue fund category.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Ontonagon County Economic Development Corporation
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Ontonagon County Road Commission
415 Spar Street
Ontonagon, Michigan 49953

Jointly Governed Organization--District Health Department

Ontonagon County, in conjunction with Baraga, Gogebic, Houghton and Keweenaw counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for 2006 were:

Ontonagon	13.00%	\$ 51,941
Baraga	12.70%	50,742
Gogebic	25.30%	101,084
Houghton	43.60%	174,201
Keweenaw	<u>5.40%</u>	<u>21,575</u>
Total	<u>100.00%</u>	<u>\$399,543</u>

Ontonagon County's 2006 actual appropriation to the District Health Department was \$51,941 as the counties of Ontonagon, Gogebic and Houghton increased their budget allocations to amounts over the approved funding formula. An additional \$3,529 was appropriated from the State shared cigarette tax revenues.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--Community Mental Health Authority

Ontonagon County, in conjunction with Baraga, Houghton and Keweenaw counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

The board approved member county appropriations for 2006 were as follows:

Ontonagon	\$ 48,814
Baraga	33,795
Houghton	164,495
Keweenaw	<u>8,500</u>
Total	<u>\$255,604</u>

Ontonagon County's 2006 appropriation to the Mental Health Board was \$48,814.

Basis of Presentation--Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county reports the following major governmental funds:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the government's primary operating fund. This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Public Transit

This fund is used to account for the operations of the transit. Revenues are primarily derived from grants, a special voted property tax levy and user fees. The fund includes the operating expenditures of the county's bus transit system.

911 Services

This fund is used to account for the operations of the county-wide emergency 911 telephone service plan. Revenues are derived from the State's wireless 911 funding allocations and the 4% surcharge on all phone lines servicing Ontonagon County. The fund includes all operating and capital expenditures relative to providing county-wide emergency 911 service.

Economic Development Revolving Loan Fund

This fund is used to account for the activity of the economic development revolving loan program.

Revenue Sharing Fund

The Revenue Sharing Fund is the funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy over a three year period.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Funds

100% Tax Payment Fund 2005--This fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the county's issuance of debt when needed (to provide cash flow for the purchase of the taxes) and for the resulting debt service payment.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Enterprise funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The principal operating revenues of the delinquent tax fund are collection fees for delinquent taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

FIDUCIARY FUNDS

Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are by nature custodial; therefore, operation results are not measured.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2005 State equalized valuation of Ontonagon County amounted to \$324,182,253 and the taxable valuation is \$201,059,714, on which ad valorem taxes of 4.2652 mills were levied for county operating purposes; .4891 mills for the county commission on aging for the maintenance and expansion of its present programs for senior citizens; .9875 mills for county transit system operating purposes; .2962 mills for Gogebic/Ontonagon Community Action programs in Ontonagon County; and 4.7447 mills for county road commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act. The current winter tax revenues, reflected in the county's 2006 financial statements, consist of the amount of the 2005 tax levy collected by the local unit treasurers prior to March 1, 2006.

Current Summer Property Taxes Receivable

In accordance with the provisions of Michigan Public Act 357 of 2004, in the summer of 2006, the county levied an additional 4.2397 mills on the county's 2006 taxable valuation of \$207,353,007. The total levy of \$875,561 has been recorded as 2006 General Fund current summer property tax revenue although \$303,173 remained uncollected as of September 30, 2006.

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$10,670, recorded in the General Fund, and \$5,739 recorded in the component unit (Road Commission) financial statements, consist of unpaid personal property taxes for the years 2001 through 2005. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue--taxes.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Funds

The taxes receivable--delinquent of \$429,272 which are recorded in the Enterprise Funds, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Ontonagon County by the County's 100% Tax Payment Funds for the years 2003 (\$797), 2004 (\$73,764) and 2005 (\$354,711). The County's 100% Tax Payment Funds are financed entirely by advances from the County's General Fund. Accordingly, none of the delinquent taxes are pledged for the payment of notes.

Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$799,645 and equipment parts and materials of \$287,010, are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 permits major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. Beginning with the fiscal year ended September 30, 2003, the Ontonagon County Road Commission has capitalized each current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has not retroactively capitalized the major infrastructure assets as of September 30, 2005, as permitted by GASB No. 34. For the Ontonagon County Road Commission, the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34 will be October 1, 2007.

Capital assets used in governmental fund type operations are accounted for in the governmental activities column of the government-wide financial statements.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available Operating Fund equity.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division (PTD), Michigan Department of Transportation (MDOT), a central services cost allocation plan to document those General Fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$16,160 was paid to the General Fund by the Public Transit Fund for the 2006 fiscal year central services charges.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund and County Economic Development Corporation Fund whose budgets are adopted and administered by the board of county road commissioners and the board of county economic development corporation, respectively. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets are adopted at the activity level and control is exercised at that level. The county board of commissioners has authorized the county's chief administrative officer (county clerk) to make General Fund budget transfers between activities in September, when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. Also, the board of road commissioners has authorized its chief administrative officer and fiscal officer to amend the County Road Fund budget, when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers (activities). Budgeted revenues and expenditures, as presented in Exhibits K, L, M, N and O, include the original budget and the final amended budget which contains authorized amendments to the original budgets as adopted.

In noncompliance with Public Act 2 of 1968, as amended, expenditures were incurred in excess of amounts appropriated in the amended budget for an activity of one special revenue fund as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
Non-Major Special Revenue Funds			
Revenue Sharing			
Operating Transfers (Out)	\$ 148,600	\$ 153,527	\$ 4,927

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

The county has designated five banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 20 of 1943, as amended, and includes all of the above investments.

At year end, the county's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Uninsured and Uncollateralized	<u>\$ 1,257,155</u>	<u>\$ 60,817</u>	<u>\$ 544,853</u>	<u>\$ 1,862,825</u>	<u>\$ 1,399,421</u>
Total	<u><u>\$ 1,257,155</u></u>	<u><u>\$ 60,817</u></u>	<u><u>\$ 544,853</u></u>	<u><u>\$ 1,862,825</u></u>	<u><u>\$ 1,399,421</u></u>

The bank balance of the primary government's deposits is \$2,390,527 of which \$307,206 is covered by Federal depository insurance.

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The investment policy does not contain any specific provisions intended to limit the exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by not participating in any investments.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--ACCOUNTS RECEIVABLE

Special Revenue Funds

The accounts receivable recorded in special revenue funds consist of the Public Transit Fund billings to other agencies for transit services provided to those agencies on a contractual basis in the amount of \$4,157 the 911 Service Funds receivable is from phone companies for their collections of the 4% operating surcharges through September of 2006 in the amount of \$4,206 and a reimbursement of \$545 to the Law Library Fund.

Component Unit

The accounts receivable recorded in the Road Commission consist of sundry receivables. The receivables were collected within 60 days after the fiscal year end.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE E--ADVANCES AND DUE TO OTHER FUNDS--GENERAL FUND

At September 30, 2006, there was a negative cash balance in the general fund in the amount of \$309,105. To eliminate the negative cash balance, an interfund receivable and payable was established as follows:

<u>Fund</u>	<u>Other Funds</u>	<u>Fund</u>	<u>Other Funds</u>
Revenue Sharing Fund	<u>\$309,105</u>	General Fund	<u>\$309,105</u>
Total	<u>\$309,105</u>		<u>\$309,105</u>

The county's present policy is to finance the working capital requirements of their 100% Tax Payment Funds (Enterprise) entirely with cash advances from the General Fund. At September 30, 2006, a total of \$330,000 was advanced of which approximately \$165,000 was available to be returned to the General Fund within 60 days of period end. Accordingly, the balance of \$165,000 is recorded as an amount reserved for long-term advances in the General Fund's fund balance.

NOTE F--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Capital Assets--Primary Government

	<u>Account Balances 10/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 09/30/06</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 50,300</u>			<u>\$ 50,300</u>
Subtotal	<u>50,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>50,300</u>
Capital Assets Being Depreciated				
Land Improvements	226,188	117,857		344,045
Buildings and Fixtures	2,218,742	-		2,218,742
Office and Other Equipment	35,881	67,838		103,719
Vehicles	<u>619,985</u>	<u>90,741</u>	<u>86,768</u>	<u>623,958</u>
Total	<u>3,100,796</u>	<u>276,436</u>	<u>86,768</u>	<u>3,290,464</u>
Less Accumulated Depreciation				
Land Improvements	12,637	11,310		23,947
Buildings and Fixtures	948,716	64,790		1,013,506
Office and Other Equipment	16,506	15,037		31,543
Vehicles	<u>426,796</u>	<u>71,743</u>	<u>86,768</u>	<u>411,771</u>
Total	<u>1,404,655</u>	<u>162,880</u>	<u>86,768</u>	<u>1,480,767</u>
Net Capital Assets Being Depreciated	<u>1,696,141</u>	<u>363,204</u>	<u>249,648</u>	<u>1,809,697</u>
Total Capital Assets	<u>\$ 1,746,441</u>	<u>\$ 276,436</u>	<u>\$ 162,880</u>	<u>\$ 1,859,997</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 39,998
Public Safety	32,379
Public Works	89,438
Health and Welfare	310
Recreation and Culture	755
	<hr/>
Total Depreciation Expense	<u>\$ 162,880</u>

Capital Assets--Road Commission (Component Unit)

	Account Balances 10/01/05	Additions	Deductions	Account Balances 09/30/06
Capital Assets Not Being Depreciated				
Infrastructure--Land	\$ 13,412			\$ 13,412
Infrastructure--Land Improvements	39,026	\$ 20,935		59,961
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	49,438	20,935	\$ -	73,373
Capital Assets Being Depreciated				
Depletable Assets	1,408		1,408	-
Buildings	2,247,989			2,247,989
Road Equipment	6,343,637	233,441	52,106	6,524,972
Shop Equipment	140,881	6,390		147,271
Office Equipment	68,909			68,909
Engineer's Equipment	19,355			19,355
Infrastructure--Bridges	11,952			11,952
Infrastructure--Roads	1,882,198	867,948		2,750,146
	<hr/>	<hr/>	<hr/>	<hr/>
Total	10,716,329	1,107,779	53,514	11,770,594
Less Accumulated Depreciation				
Depletable Assets		1,408	1,408	-
Building	1,194,846	50,904		1,245,750
Road Equipment	5,355,073	345,301	52,106	5,648,268
Shop Equipment	127,843	5,228		133,071
Office Equipment	56,872	4,149		61,021
Engineer's Equipment	18,752	329		19,081
Infrastructure--Bridges	1,494	1,494		2,988
Infrastructure--Roads	255,608	230,471		486,079
	<hr/>	<hr/>	<hr/>	<hr/>
Total	7,010,488	639,284	53,514	7,596,258
Net Capital Assets Being Depreciated	<hr/> 3,705,841	<hr/> 468,495	<hr/> -	<hr/> 4,174,336
Total Net Capital Assets	<u>\$ 3,755,279</u>	<u>\$ 1,128,714</u>	<u>\$ 639,284</u>	<u>\$ 4,247,709</u>

COUNTY OF ONTONAGON
NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$345,301
Indirect Equipment	
Shop Building	10,413
Storage Building	37,652
Shop Equipment	5,228
Net Administrative Expense	
Buildings	2,839
Office Equipment and Furniture	4,149
Engineers Equipment	329
Depletable Assets	1,408
Infrastructure	<u>231,965</u>
Total Depreciation Expense	<u><u>\$639,284</u></u>

NOTE G--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Ontonagon County, and the changes therein, may be summarized as follows:

Primary Government Long-Term Debt

	<u>Balances</u> <u>10/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/06</u>	<u>Due in One</u> <u>Year</u>
<u>Governmental Activities</u>				
Loans Payable				
Michigan Strategic Fund Renaissance Park				
Fund loan for infrastructure improvements at				
the White Pine Industrial Park, \$191,700 at				
5% payable as detailed below.	\$ 72,790	\$ (8,564)	\$ 64,226	\$ 8,564
Accrued Employee Benefits (See Note H)	<u>135,307</u>	<u>8,352</u>	<u>143,659</u>	<u> </u>
Total Long-Term Debt--Primary Government	<u><u>\$ 208,097</u></u>	<u><u>\$ (212)</u></u>	<u><u>\$ 207,885</u></u>	<u><u>\$ 8,564</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/06</u>
Accrued Employee Benefits (See Note H)	<u>\$ 568,591</u>	<u>\$ 33,769</u>	<u>\$ 602,360</u>
Total	<u>\$ 568,591</u>	<u>\$ 33,769</u>	<u>\$ 602,360</u>

The Michigan Strategic Fund (MSF) loan was made jointly to Ontonagon County and Carp Lake Township (recipients) in accordance with an Economic Development Financing Agreement. A letter from the Michigan Economic Development Corporation to the Ontonagon County Economic Development Corporation dated June 3, 2004 provides, in part, as follows: The information submitted is satisfactory, and we now consider this project complete and closed. Sufficient documentation regarding the job creation has been received so that the interest on the loan has been waived and the maximum credit (50%) has been awarded to the county/township. Even though this project is closed, the county and the township continue to be obligated for repayment of the loan portion of the agreement which amounted to \$95,850, payable in quarterly installments of \$2,140.86 beginning effective August 1, 2004, to the year 2014. The loan is secured by a revenue sharing pledge agreement, the following is a schedule of the principal payments.

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Fiscal</u> <u>Year</u>	<u>Principal</u>
2007	\$ 8,564	2011	\$ 8,564
2008	8,563	2012	8,563
2009	8,564	2013	8,564
2010	8,563	2014	<u>4,281</u>
Total			<u>\$ 64,226</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of September 30, 2006, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 55,749	\$ 22,212	\$ 77,961
Sheriff Department Employees	<u>41,796</u>	<u>23,902</u>	<u>65,698</u>
Total Primary Government	<u>\$ 97,545</u>	<u>\$ 46,114</u>	<u>\$143,659</u>
Component Unit--Road Commission			
Road Commission Employees	<u>\$ 67,697</u>	<u>\$ 534,663</u>	<u>\$602,360</u>
Total Component Unit	<u>\$ 67,697</u>	<u>\$ 534,663</u>	<u>\$602,360</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$165,242</u>	<u>\$ 580,777</u>	<u>\$746,019</u>

VACATION BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a biweekly basis. The county has not established a formal policy regarding a maximum authorized accumulation of vacation hours.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except for those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

SICK LEAVE BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. The county's policy for county general and public transit employees provides that upon death, retirement, or voluntary termination employees shall be paid for 20% of all unused sick days to a maximum of 100 days. Sheriff department employees are paid for 50% of their accumulated sick leave benefits when they separate from employment, except when dismissed for cause, in which case, they are entitled to payment of 25% of their accumulated benefits.

Road Commission Employees

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

NOTE I--DEFERRED COMPENSATION

The County and Road Commission offers all its employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (county and road commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County or Road Commission's financial statements.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Ontonagon County and the two component units, the Ontonagon County Economic Development Corporation (EDC) and the Ontonagon County Road Commission have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2% for county general and nonunion employees, 2.5% for sheriff department employees, 2% for EDC employees and 2.5% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The calendar year 2005 required pension contributions were 12.53%, 16.62%, 11.33%, 15.69% and 22.39% of covered payroll for the county as follows: general group, sheriff, nonunion, EDC and the Road Commission, respectively.

Annual Pension Cost

For the calendar year ended December 31, 2005, the annual pension costs were \$162,796 for the county, \$5,064 for the EDC, and \$437,079 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT PLANS (Continued)

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	(APC)			Contributed			Contributed		
	County	EDC	Road	County	EDC	Road	County	EDC	Road
2003	\$ 157,094	\$ 4,531	\$ 416,971	100%	100%	100%	\$0	\$0	\$0
2004	177,202	5,071	441,159	100%	100%	100%	\$0	\$0	\$0
2005	162,796	5,064	437,079	100%	100%	100%	\$0	\$0	\$0

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2003						
General	\$4,305,536	\$ 5,459,056	\$ (1,153,520)	79%	\$1,323,550	87%
EDC	58,482	69,261	(10,779)	84%	29,290	37%
Road	6,433,656	11,428,579	(4,994,923)	56%	1,903,230	262%
2004						
General	4,589,928	5,860,425	(1,270,497)	78%	1,415,133	90%
EDC	68,113	78,417	(10,304)	87%	31,793	32%
Road	6,989,561	12,980,945	(5,991,384)	54%	1,938,943	309%
2005						
General	4,852,764	6,136,107	(1,283,343)	79%	1,394,532	92%
EDC	77,973	85,726	(7,753)	91%	32,278	24%
Road	7,456,991	13,496,546	(6,039,555)	55%	1,968,501	307%

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees and spouses for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan for the retirees and their spouses. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992, and \$5,000 for those retired after that date.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS (Continued)

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2006, 15 retirees were eligible for the post-retirement health care benefits at a cost of \$109,113. As described more fully in Note M, the Road Commission self-insures for life insurance benefits, which covered 9 retirees for \$1,500, 11 retirees for \$5,000 and 9 retirees for \$10,000 during the year ended September 30, 2006.

NOTE L--RISK MANAGEMENT

The County and Road Commission (component unit) is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county board of commissioners purchased commercial insurance for property, liability, errors and omissions, medical benefit claims and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission purchased commercial insurance for medical benefit claims, self-insure for employee group life coverage as detailed in Note M, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member on October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE M--RESERVE FOR SELF-INSURANCE--ROAD COMMISSION

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2006 is as follows:

Reserve Balance--October 1, 2005	\$ 120,497
Less: 2005/2006 Death Benefit Payment	<u>(5,000)</u>
Reserve Balance--September 30, 2006	<u><u>\$ 115,497</u></u>

NOTE N--TRANSFERS IN AND TRANSFERS (OUT)

The 2006 operating transfers from Exhibits D, F and J can be summarized as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$266,347	General	\$428,723
Nonmajor Governmental	458,723	Nonmajor Governmental	160,117
		Economic Development	
		Revolving Loan	30,000
		100% Tax Payment	<u>106,230</u>
Total Primary Government	<u><u>\$725,070</u></u>	Total Primary Government	<u><u>\$725,070</u></u>
Component Unit		Primary Government	
Economic Development		Economic Development	
Corporation	<u>\$ 28,377</u>	Revolving Loan	<u>\$ 28,377</u>
Total Component Unit	<u><u>\$ 28,377</u></u>	Total Primary Government	<u><u>\$ 28,377</u></u>
Total Reporting Entity	<u><u>\$753,447</u></u>		<u><u>\$753,447</u></u>

**ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2006**

EXHIBIT K

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes and Penalties	\$ 1,643,438	\$ 2,052,216	\$ 2,138,400	\$ 86,184
Licenses and Permits	3,050	3,050	2,716	(334)
Federal Grants	177,664	223,398	178,129	(45,269)
State Grants	437,460	464,062	463,925	(137)
Township Contributions	-	-	4,282	4,282
Charges for Services	343,650	329,450	325,310	(4,140)
Fines and Forfeits	5,500	5,000	2,280	(2,720)
Interest and Rentals	17,100	17,100	9,718	(7,382)
Other Revenue	42,882	43,296	27,641	(15,655)
Total Revenues	2,670,744	3,137,572	3,152,401	14,829
Expenditures				
Current				
General Government	1,740,304	1,722,545	1,705,116	17,429
Public Safety	882,533	889,628	880,418	9,210
Public Works	18,251	22,572	20,679	1,893
Health and Welfare	152,957	158,894	157,664	1,230
Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural	17,125	22,725	22,452	273
Other	55,450	54,418	53,942	476
Capital Outlay	-	62,910	62,884	26
Debt Service--Principal	8,564	8,564	8,563	1
Total Expenditures	2,882,808	2,949,880	2,919,342	30,538
Excess of Revenues Over (Under) Expenditures	(212,064)	187,692	233,059	45,367
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	245,137	255,384	266,347	10,963
Interfund Transfers (Out)	(27,720)	(438,723)	(428,723)	10,000
Total Other Financing Sources (Uses)	217,417	(183,339)	(162,376)	20,963
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	5,353	4,353	70,683	66,330
Fund Balance--October 1, 2005	265,635	265,635	265,635	-
Fund Balance--September 30, 2006	\$ 270,988	\$ 269,988	\$ 336,318	\$ 66,330

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
PUBLIC TRANSIT--MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2006

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 189,750	\$ 204,545	\$ 204,470	\$ (75)
Federal Grants	59,249	111,414	134,006	22,592
State Grants	196,657	207,257	218,986	11,729
Charges for Services	69,500	64,500	63,909	(591)
Interest and Rents	1,000	3,100	3,104	4
Total Revenues	516,156	590,816	624,475	33,659
Expenditures				
Public Works	515,743	532,403	507,860	24,543
Capital Outlay	-	58,000	58,000	-
Total Expenditures	515,743	590,403	565,860	24,543
Excess of Revenues Over (Under) Expenditures	413	413	58,615	58,202
Fund Balances--October 1, 2005	133,132	133,132	133,132	-
Fund Balances--September 30, 2006	\$ 133,545	\$ 133,545	\$ 191,747	\$ 58,202

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 SERVICE--MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2006

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 78,000	\$ 77,747	\$ 90,836	\$ 13,089
Charges for Services	92,100	92,100	86,262	(5,838)
Total Revenues	170,100	169,847	177,098	7,251
Expenditures				
Public Safety	179,219	168,966	124,146	44,820
Capital Outlay		10,000	8,800	1,200
Total Expenditures	179,219	178,966	132,946	46,020
Excess of Revenues Over (Under) Expenditures	(9,119)	(9,119)	44,152	53,271
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(9,119)	(9,119)	44,152	53,271
Fund Balances--October 1, 2005	314,843	314,843	314,843	-
Fund Balances--September 30, 2006	<u>\$ 305,724</u>	<u>\$ 305,724</u>	<u>\$ 358,995</u>	<u>\$ 53,271</u>

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT REVOLVING LOAN FUND
For the Year Ended September 30, 2006

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Interest and Rents	\$ 22,500	\$ 22,500	\$ 23,964	\$ 21,478
Other	104,100	104,100	81,302	(22,798)
Total Revenues	126,600	126,600	105,266	(21,334)
Expenditures				
Community and Economic Development	130,000	365,756	-	365,756
Total Expenditures	130,000	365,756	-	365,756
Excess of Revenues Over (Under)				
Expenditures	(3,400)	(239,156)	105,266	344,422
Other Financing Sources (Uses)				
Operating Transfers (Out)--Primary Government	-	(30,000)	(30,000)	-
Operating Transfers (Out)--Component Unit	(30,000)	(34,506)	(28,377)	6,129
Total Other Financing Sources (Uses)	(30,000)	(64,506)	(58,377)	6,129
Excess of Revenues and Other				
Sources Over (Under)				
Expenditures and Other Uses	(33,400)	(303,662)	46,889	350,551
Fund Balances--October 1, 2005	309,583	309,583	309,583	-
Fund Balances--September 30, 2006	\$ 276,183	\$ 5,921	\$ 356,472	\$ 350,551

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING FUND
For the Year Ended September 30, 2006

EXHIBIT O

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and Rents			\$ 5,061	\$ 5,061
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>5,061</u>	<u>5,061</u>
Excess of Revenues Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>5,061</u>	<u>5,061</u>
Other Financing Sources (Uses)				
Operating Transfers:				
Transfers In--Primary Government	431,500	431,500	389,663	(41,837)
Transfers (Out)--Primary Government	(148,600)	(148,600)	(153,527)	(4,927)
Total Other Financing Sources (Uses)	<u>282,900</u>	<u>282,900</u>	<u>236,136</u>	<u>(46,764)</u>
Excess of Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	282,900	282,900	241,197	(41,703)
Fund Balances--October 1, 2005	<u>212,257</u>	<u>212,257</u>	<u>212,257</u>	<u>-</u>
Fund Balances--September 30, 2006	<u>\$ 495,157</u>	<u>\$ 495,157</u>	<u>\$ 453,454</u>	<u>\$ (41,703)</u>

ONTONAGON COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2006

EXHIBIT P

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	Correction Officer Training	Law Library
Cash	\$ 6,044	\$ 15,644	\$ 1,641	\$ 51,024	\$ 18,151	\$ 39,898	\$ 5,690	\$ 2,077
Accounts Receivable								545
Due From State of Michigan								
Prepaid Expense								
Total Assets	<u>\$ 6,044</u>	<u>\$ 15,644</u>	<u>\$ 1,641</u>	<u>\$ 51,024</u>	<u>\$ 18,151</u>	<u>\$ 39,898</u>	<u>\$ 5,690</u>	<u>\$ 2,622</u>

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts Payable								\$ 2,415
Due to State of Michigan								
Stumpage Deposits Payable		\$ 200						
Accrued Wages Payable								
Deferred Revenue--Other								
Total Liabilities	<u>\$ -</u>	<u>200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,415</u>
Fund Balances								
Unreserved and Undesignated	6,044	15,444	1,641	51,024	18,151	39,898	5,690	207
Total Fund Balances	<u>6,044</u>	<u>15,444</u>	<u>1,641</u>	<u>51,024</u>	<u>18,151</u>	<u>39,898</u>	<u>5,690</u>	<u>207</u>
Total Liabilities and Fund Balances	<u>\$ 6,044</u>	<u>\$ 15,644</u>	<u>\$ 1,641</u>	<u>\$ 51,024</u>	<u>\$ 18,151</u>	<u>\$ 39,898</u>	<u>\$ 5,690</u>	<u>\$ 2,622</u>

**ONTONAGON COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2006**

**EXHIBIT P
(CONTINUED)**

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	County Library Board	Housing Rehab Grant 2005-06	Drug Law Enforcement	Bio Burner Grant	Probate Child Care	Veterans' Trust	Carl Thornton Endowment	Total
Cash		\$ 4,946			\$17,462	\$ (638)	\$ 59,088	\$ 221,027
Accounts Receivable								545
Due From State of Michigan					7,173	716		7,889
Prepaid Expense							4,038	4,038
Total Assets	\$ -	\$ 4,946	\$ -	\$ -	\$24,635	\$ 78	\$ 63,126	\$ 233,499

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts Payable					\$ 1,554		\$ 4,596	\$ 8,565
Due to State of Michigan							2,402	2,402
Stumpage Deposits Payable								200
Accrued Wages Payable					258			258
Deferred Revenue--Other		\$ 4,946						4,946
Total Liabilities	\$ -	4,946	\$ -	\$ -	1,812	\$ -	6,998	16,371
Fund Balances								
Unreserved and Undesignated	-	-	-	-	22,823	78	56,128	217,128
Total Fund Balances	-	-	-	-	22,823	78	56,128	217,128
Total Liabilities and Fund Balances	\$ -	\$ 4,946	\$ -	\$ -	\$24,635	\$ 78	\$ 63,126	\$ 233,499

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

EXHIBIT Q

	SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS							
	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	Correction Officer Training	Law Library
Revenues								
Taxes					\$ 61,415	\$ 101,074		
Federal Grants								
State Grants								
Charges for Services	\$ 550		\$ 13,330				\$ 1,630	
Fines and Forfeits								\$ 2,000
Interest and Rents			199					
Other								3,025
Total Revenues	550	\$ -	13,529	\$ -	61,415	101,074	1,630	5,025
Expenditures								
Current								
General Government	471		8,995					14,831
Public Works								
Health and Welfare					63,500	106,000		
Community and Economic Development								
Recreation and Cultural								
Capital Outlay			28,895					
Total Expenditures	471	-	37,890	-	63,500	106,000	-	14,831
Excess of Revenues Over (Under) Expenditures	79	-	(24,361)		(2,085)	(4,926)	1,630	(9,806)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government			15,000				4,060	10,000
Operating Transfers (Out)--Primary Government	(1,357)	(5,000)						
Total Other Financing Sources (Uses)	(1,357)	(5,000)	15,000	-	-	-	4,060	10,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,278)	(5,000)	(9,361)	-	(2,085)	(4,926)	5,690	194
Fund Balances--October 1, 2005	7,322	20,444	11,002	51,024	20,236	44,824	-	13
Fund Balances--September 30, 2006	\$ 6,044	\$ 15,444	\$ 1,641	\$ 51,024	\$ 18,151	\$ 39,898	\$ 5,690	\$ 207

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

EXHIBIT Q
(CONTINUED)

	SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS							
	County Library Board	Housing Rehab Grant 2005-06	Drug Law Enforcement	Bio Burner	Probate Child Care	Veterans' Trust	Carl Thornton Endowment	Total
Revenues								
Taxes								\$ 162,489
Federal Grants		\$ 43,219			\$ 24,661		\$ 94,620	162,500
State Grants				\$ 30,000	19,598	\$ 1,089	20,291	70,978
Charges for Services								15,510
Fines and Forfeits	\$17,880							19,880
Interest and Rents	173							372
Other		36,570		25,000	14,192		439	79,226
Total Revenues	18,053	79,789	\$ -	55,000	58,451	1,089	115,350	510,955
Expenditures								
Current								
General Government								24,297
Public Works							1,636	1,636
Health and Welfare		80,078			53,195	1,177		303,950
Community and Economic Development				85,000				85,000
Recreation and Cultural	18,053							18,053
Capital Outlay							117,857	146,752
Total Expenditures	18,053	80,078	-	85,000	53,195	1,177	119,493	579,688
Excess of Revenues Over (Under) Expenditures	-	(289)	-	(30,000)	5,256	(88)	(4,143)	(68,733)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government				30,000	10,000			69,060
Operating Transfers (Out)--Primary Government			(233)					(6,590)
Total Other Financing Sources (Uses)	-	-	(233)	30,000	10,000	-	-	62,470
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(289)	(233)	-	15,256	(88)	(4,143)	(6,263)
Fund Balances--October 1, 2005	-	289	233	-	7,567	166	60,271	223,391
Fund Balances--September 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ 22,823	\$ 78	\$ 56,128	\$ 217,128

ONTONAGON COUNTY
COMBINING SCHEDULE OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2006

EXHIBIT R

	BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS				
	100% TAX PAYMENT FUNDS				Total Non-Major Enterprise Funds
	Foreclosure Fund	2002	2003	2004	
<u>ASSETS</u>					
Current Assets					
Cash	\$ 59,548		\$ 505	\$ 433	\$ 60,486
Delinquent Taxes Receivable			797	73,764	74,561
Forfeiture Certificate Fee Receivable			110	(973)	(863)
Total Current Assets	\$ 59,548	\$ -	1,412	73,224	134,184
Total Assets	\$ 59,548	\$ -	\$ 1,412	\$ 73,224	\$ 134,184
<u>LIABILITIES</u>					
Current Liabilities					
Redemption Certificate Fees Receivable			\$ (180)	\$ (1,576)	\$ (1,756)
Total Current Liabilities	\$ -	\$ -	(180)	(1,576)	(1,756)
Noncurrent Liabilities					
Advance From General Fund				3,000	3,000
Total Noncurrent Liabilities	-	-	-	3,000	3,000
Total Liabilities	-	-	(180)	1,424	1,244
<u>NET ASSETS</u>					
Restricted Net Assets	59,548				59,548
Unrestricted Net Assets		-	1,592	71,800	73,392
Total Net Assets	\$ 59,548	\$ -	\$ 1,592	\$ 71,800	\$ 132,940

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2006

EXHIBIT S

	BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS				
	100% TAX PAYMENT FUNDS			Total	
	Foreclosure			Non-Major	
	Fund	2002	2003	Enterprise	Funds
Operating Revenues					
Interest and Penalties on Taxes		\$ 2,808	\$ 25,759	\$ 44,190	\$ 72,757
Other Foreclosure Fees and Charges	\$ 68,420				68,420
Total Operating Revenues	68,420	2,808	25,759	44,190	141,177
Operating Expenses					
Supplies and Postage	1,021			609	1,630
Contract Services	17,899				17,899
Filing and Visitation Fees	2,423				2,423
Advertising	2,052				2,052
Total Operating Expenses	23,395	-	-	609	24,004
Net Operating Income (Loss)					
Before Operating Transfers	45,025	2,808	25,759	43,581	117,173
Interfund Transfers					
Transfers (Out) to General Fund		(9,230)	(97,000)		(106,230)
Change in Net Assets	45,025	(6,422)	(71,241)	43,581	10,943
Net Assets--October 1, 2005	14,523	6,422	72,833	28,219	121,997
Net Assets--September 30, 2006	\$ 59,548	\$ -	\$ 1,592	\$ 71,800	\$ 132,940

ONTONAGON COUNTY
COMBINING SCHEDULE OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2006

EXHIBIT T

BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS				
100% TAX PAYMENT FUNDS				Total Enterprise Funds
Foreclosure Fund	2002	2003	2004	
Cash Flows From Operating Activities				
Interest and Penalties on Taxes	\$ 2,808	\$ 25,759	\$ 44,190	\$ 72,757
Other Fees	\$ 68,420			68,420
Operating Expenses	(23,395)		(609)	(24,004)
Delinquent Taxes Collected	5,991	67,419	253,061	326,471
Net Cash Provided by Operating Activities	45,025	8,799	296,642	443,644
Cash Flows From Noncapital Financing Activities				
Return of Advances From Other Funds			(296,000)	(296,000)
(Increase) or Decrease in Forfeiture				
Certificate Fee Receivable	307	1,050	973	2,330
Increase or (Decrease) in Redemption				
Certificate Payable	57		(1,576)	(1,519)
Transfers In (Out)	(9,230)	(97,000)		(106,230)
Net Cash Provided by Noncapital Financing Activities	-	(8,866)	(296,603)	(401,419)
Net Increase (Decrease) in Cash and Cash Equivalents	45,025	(67)	39	42,225
Cash and Cash Equivalents at Beginning of Year	14,523	67	394	18,261
Cash and Cash Equivalents at End of Year	\$ 59,548	\$ -	\$ 433	\$ 60,486
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 45,025	\$ 2,808	\$ 43,581	\$ 117,173
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
(Increase) Decrease in Taxes Receivable	5,991	67,419	253,061	326,471
Net Cash Provided by Operating Activities	\$ 45,025	\$ 8,799	\$ 296,642	\$ 443,644

ONTONAGON COUNTY
COMBINING SCHEDULE OF FIDUCIARY
NET ASSETS--AGENCY FUNDS
September 30, 2006

EXHIBIT U

<u>AGENCY FUNDS</u>			
	General Agency	Library (Penal Fines) Fund	Total
<u>ASSETS</u>			
Cash	\$534,334	\$10,519	\$544,853
Total Assets	\$534,334	\$10,519	\$544,853
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Due to Other Funds	\$ (2,299)		\$ (2,299)
Due to Schools	(15,961)		(15,961)
Due to Townships	(234)		(234)
Due to Villages	735		735
Due to State of Michigan	542,798		542,798
Undistributed Interest	-	\$ 110	110
Undistributed Penal Fines	-	10,409	10,409
Undistributed Tax Collections	533		533
Other Trust Payable	8,762		8,762
Total Liabilities	534,334	10,519	544,853
Total Liabilities and Fund Balances	\$534,334	\$10,519	\$544,853

ONTONAGON COUNTY
COMBINING SCHEDULE OF CHANGES IN ASSETS
AND LIABILITIES--AGENCY FUNDS
For the Year Ended September 30, 2006

EXHIBIT V

	Balance 10/01/05	Additions	Deductions	Balance 09/30/06
<u>GENERAL AGENCY FUND</u>				
Assets				
Cash	\$381,712	\$5,589,225	\$5,436,603	\$ 534,334
Total Assets	\$381,712	\$5,589,225	\$5,436,603	\$ 534,334
Liabilities				
Due to Other Funds	-	\$2,380,741	\$2,383,040	\$ (2,299)
Due to Schools	\$ (11,931)	548,386	552,416	(15,961)
Due to Townships	(94)	158,546	158,686	(234)
Due to Villages	1,668	170,385	171,318	735
Due to State	384,793	1,970,235	1,812,230	542,798
Due to Federal		454,762	454,762	-
Undistributed Tax Collections	1,793	3,842,615	3,843,875	533
Other Trust Payable	5,483	467,644	464,365	8,762
Total Liabilities	\$381,712	\$9,993,314	\$9,840,692	\$ 534,334
<u>LIBRARY PENAL FINE FUND</u>				
Assets				
Cash	\$ 11,433	\$ 42,943	\$ 43,857	\$ 10,519
Liabilities				
Undistributed Interest	\$ 58	\$ 454	\$ 402	\$ 110
Undistributed Penal Fines	11,375	42,489	43,455	10,409
Total Liabilities	\$ 11,433	\$ 42,943	\$ 43,857	\$ 10,519

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2006

EXHIBIT W

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes and Penalties				
Current Winter Property Taxes	\$ 1,175,000	\$ 689,102	\$ 754,532	\$ 65,430
Current Summer Property Taxes	-	875,561	875,561	-
Industrial Facilities Tax	12,918	12,918	12,758	(160)
Delinquent Real Property Taxes	85,000	85,000	107,779	22,779
Delinquent Personal Property Taxes	500	500	(2,031)	(2,531)
Commercial Forest Yield Tax	4,000	4,000	1,795	(2,205)
Commercial Forest Reserve Tax	60,000	60,000	61,647	1,647
Tax Exempt Housing	1,395	1,395	1,507	112
Trailer Tax	30	30	-	(30)
Swamp Lands Tax	33,895	33,895	33,896	1
Payment-In-Lieu of Taxes	270,000	289,115	289,115	-
Interest and Penalties on Taxes	700	700	1,841	1,141
Total Taxes and Penalties	1,643,438	2,052,216	2,138,400	86,184
Licenses and Permits				
Marriage Licenses	300	300	245	(55)
Dog Licenses	1,200	1,200	1,355	155
Pistol Permits	1,000	1,000	676	(324)
Handgun Purchase Permits	400	400	360	(40)
Kennel Licenses	150	150	80	(70)
Total Licenses and Permits	3,050	3,050	2,716	(334)
Federal Grants				
Emergency Services	10,000	10,000	5,558	(4,442)
Homeland Security Grants	18,563	59,263	56,557	(2,706)
ADC Incentive	13,000	13,000	10,038	(2,962)
Medical Support Enforcement	-	5,034	4,764	(270)
Cooperative Reimbursement	136,101	136,101	101,212	(34,889)
Total Federal Grants	177,664	223,398	178,129	(45,269)
State Grants				
Probate Judge Salary	146,804	101,080	94,195	(6,885)
Juvenile Officer Grant	27,317	27,317	27,317	-
Judicial Salary Standardization	12,803	58,527	58,527	-
Court Caseload Assistance	3,000	3,000	1,796	(1,204)
Court Funding	45,000	36,886	36,885	(1)
Crime Victims' Assistance	4,000	4,000	5,200	1,200
Secondary Road Patrol	49,000	49,000	47,348	(1,652)
Marine Safety	4,087	1,287	479	(808)
Snowmobile Safety Program	12,166	4,783	4,783	-
Off-Road Vehicle Safety Program	5,483	5,483	7,890	2,407
MDOT Highway Safety Program	5,000	2,000	6,830	4,830
Cooperative Reimbursement Program	-	-	1,382	1,382
Prosecutor Welfare Fraud	500	500	135	(365)
Act 302 Training	2,200	2,200	3,212	1,012
Diverted Felons Program	100	8,794	8,795	1
Convention Facility Liquor Tax	30,000	30,730	30,730	-
State Cigarette Tax	5,000	4,887	4,887	-
Live Scan Equipment Grant	-	15,000	15,000	-
Reimbursement Grant	85,000	108,588	108,534	(54)
Total State Grants	437,460	464,062	463,925	(137)
Contributions From Local Units				
Township Contributions	-	-	4,282	4,282

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2006

EXHIBIT W
(CONTINUED)

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Charges for Services				
Circuit Court Costs	3,450	3,450	1,560	(1,890)
Circuit Court Probation Fees	1,000	1,000	105	(895)
District Court Costs	102,000	92,000	93,955	1,955
District Court Oversight Fees	10,000	10,000	12,859	2,859
Probate Court Costs	500	500	57	(443)
Board and Care of Dogs and Cats	100	100	-	(100)
Circuit Court Services	2,500	2,500	2,187	(313)
Friend of the Court Services	5,000	5,000	4,954	(46)
Probate Court Services	7,000	7,000	4,129	(2,871)
Treasurer Services	1,400	1,400	1,488	88
Clerk Services	10,000	10,000	9,675	(325)
Register of Deeds' Services	37,125	37,125	32,378	(4,747)
Real Estate Transfer Tax	32,000	32,000	29,371	(2,629)
District Court Civil Fees	3,000	3,000	3,529	529
Sheriff Services	22,800	22,800	29,749	6,949
Soil Erosion Fees	2,500	2,500	1,100	(1,400)
Marriage Counseling Fees	700	700	505	(195)
Record Copying	10,000	10,000	11,570	1,570
Prisoner Board	11,000	9,000	8,235	(765)
Tax Department Services	32,000	32,000	36,226	4,226
Airport Use Fees	6,000	6,000	2,817	(3,183)
Salvage Inspection Fees	1,000	4,800	4,900	100
Sales of Supplies and Maps	75	75	130	55
Sale of Scrap and Salvage	500	500	338	(162)
Sale of Aviation Fuel	7,000	7,000	5,985	(1,015)
Park Fees	35,000	29,000	27,508	(1,492)
Total Charges for Services	343,650	329,450	325,310	(4,140)
Fines and Forfeits				
Bond and Other Forfeitures	5,500	5,000	2,280	(2,720)
Interest and Rents				
Interest Earned on Deposits	12,000	12,000	7,318	(4,682)
Rental Income	5,100	5,100	2,400	(2,700)
Total Interest and Rents	17,100	17,100	9,718	(7,382)
Other Revenues				
Sale of Capital Assets	1,300	1,300	210	(1,090)
Contributions--Public Sources	7,282	5,696	1,413	(4,283)
Contributions--Private Sources	-	-	868	868
Transporting Patients	3,000	5,000	6,388	1,388
Insurance and Bond Premium Reimbursements	13,000	13,000	-	(13,000)
Election Expense Reimbursements	100	100	1,257	1,157
General Reimbursements and Refunds	16,200	16,200	16,170	(30)
Vending and Pay Phone Commissions	2,000	2,000	1,335	(665)
Total Other Revenues	42,882	43,296	27,641	(15,655)
Total Revenue	2,670,744	3,137,572	3,152,401	14,829
Other Financing Sources				
Operating Transfers In				
Friend of the Court	1,037	1,357	1,357	-
Forestry	-	5,000	5,000	-
Drug Law Enforcement	-	-	233	233
Revenue Sharing	148,600	153,527	153,527	-
100% Tax Payment Funds	95,500	95,500	106,230	10,730
Total Other Financing Sources	245,137	255,384	266,347	10,963
Total Revenues and Other Financing Sources	\$ 2,915,881	\$ 3,392,956	\$ 3,418,748	\$ 25,792

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2006

EXHIBIT X

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Board of Commissioners	\$ 47,593	\$ 45,593	\$ 44,658	\$ 935
Circuit Court	29,668	40,730	40,293	437
District Court	146,040	144,180	141,227	2,953
Friend of the Court	164,381	153,664	150,671	2,993
Jury Board	1,892	1,892	1,154	738
Probate Court	285,291	265,191	264,170	1,021
Family Counseling	500	1,600	1,536	64
Elections	10,183	15,883	15,780	103
Clerk/Register of Deeds	138,161	137,415	136,694	721
Accounting Department	77,287	69,840	69,591	249
Equalization Department	178,246	176,094	175,613	481
Prosecuting Attorney	192,137	186,358	185,949	409
Tax Processing	10,883	10,883	10,580	303
Remonumentation Program	85,000	108,588	108,540	48
Treasurer	173,074	152,386	150,792	1,594
Cooperative Extension Service	55,486	56,364	55,726	638
Courthouse and Grounds	92,293	101,995	100,934	1,061
Soil Survey	600	600	302	298
Soil Conservation	2,375	2,375	2,375	-
Soil Erosion Control	1,939	1,939	1,334	605
Resource Conservation and Development	325	325	325	-
Record Copying	3,600	4,100	4,048	52
Central Supply	1,400	1,500	1,415	85
Computer Network	12,480	12,480	11,556	924
County Audit	17,470	17,070	16,409	661
Consultant Fees	12,000	13,500	13,444	56
Total General Government	1,740,304	1,722,545	1,705,116	17,429
Public Safety				
Sheriff	465,326	509,701	506,726	2,975
Secondary Road Patrol	55,185	54,485	53,459	1,026
Snowmobile Law Enforcement	14,313	2,054	2,001	53
Marine Law Enforcement	6,295	1,749	1,671	78
Off-Road Vehicle Enforcement	5,483	2,983	1,876	1,107
Jail	288,629	267,330	265,524	1,806
Mine Inspector	7,467	8,067	7,989	78
Planning Commission	1,739	1,739	1,720	19
Emergency Services	38,096	21,910	20,657	1,253
Homeland Security Grants	-	19,610	18,795	815
Total Public Safety	882,533	889,628	880,418	9,210
Public Works				
Airport	18,251	22,572	20,679	1,893
Total Public Works	18,251	22,572	20,679	1,893

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2006

EXHIBIT W
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Health and Welfare				
District Health Department	55,470	55,470	55,391	79
Substance Abuse Agency	15,000	15,365	15,365	-
Medical Examiner	13,000	16,000	15,790	210
District Mental Health Department	48,814	48,814	48,814	-
Emergency Ambulance	3,675	1,400	1,327	73
Care of Patients	1,445	4,920	4,465	455
County Human Services Board	1,763	2,570	2,553	17
Gogebic Human Services Coordinating Board	-	1,000	1,000	-
Veterans' Burials	12,200	11,765	11,555	210
Veterans' Counselor	1,130	1,130	1,089	41
Veterans' Affairs Board	460	460	315	145
Total Health and Welfare	152,957	158,894	157,664	1,230
Community and Economic Development				
UP Commission on Area Progress	600	600	600	-
Western UP Planning and Development Region	7,024	7,024	7,024	-
Total Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural				
County Park	17,125	22,725	22,452	273
Other				
Employee Fringe Benefits	-	468	468	-
Insurance and Bonds	55,450	53,950	53,474	476
Total Other	55,450	54,418	53,942	476
Capital Outlay				
Sheriff Department Equipment and Vehicles	-	62,910	62,884	26
Total Capital Outlay	-	62,910	62,884	26
Debt Service				
White Pine Industrial Park Loan Principal	8,564	8,564	8,563	1
Total Expenditures	2,882,808	2,949,880	2,919,342	30,538
Other Financing Uses				
Interfund Transfers (Out)				
Law Library	5,000	10,000	10,000	-
Register of Deeds Automation	-	25,000	15,000	10,000
Corrections Officers Training	-	4,060	4,060	-
Revenue Sharing	-	389,663	389,663	-
Child Care	22,720	10,000	10,000	-
Total Other Financing Uses	27,720	438,723	428,723	10,000
Total Expenditures and Other Financing Uses	\$ 2,910,528	\$ 3,388,603	\$ 3,348,065	\$ 40,538



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 20, 2006

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Ontonagon County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise Ontonagon County's basic financial statements and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ontonagon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ontonagon County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Ontonagon County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the Ontonagon County's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting which is listed as Finding 06-01.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ontonagon County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ontonagon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed eight instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, however, we did note some instances of noncompliance described in the accompanying Comments and Recommendations as findings 06-2 through 06-05 and 04-04.

We noted other matters that we reported to management of Ontonagon County described in the accompanying Comments and Recommendations as findings 06-06 through 06-08.

This report is intended solely for the information of the Ontonagon County Board of County Commissioners, the County Commission's management and others within the County Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON
COMMENTS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES

Reconciling Due to State For Courts

Finding 06-01

Condition: The Circuit, District and Probate Courts use the same account numbers for amounts due to the state recorded in the Trust and Agency Fund. However, amounts due and payable did not always agree with the amounts available. While the accounts are reconciled on an annual basis by the treasurer's office, the errors in the account are not easily identifiable and corrected in a timely manner.

Criteria: Account reconciliations and reconciling corrections are to be performed in a timely manner.

Recommendation: We recommend management consider assigning a number to each court as follows: 1 to Circuit Court, 2 to District Court, and 3 to Probate. As an example, 228.581 would be the Circuit Court civil filing fee fund due to the state. The transmittal to the county treasurer would include the assigned court number. This change would help facilitate the account reconciliation and error recognition procedures. We also recommend that the reconciling items be corrected on a timely basis

NONCOMPLIANCE WITH STATE STATUTES

County Board--Budget

Finding 06-02

Condition: As indicated in the notes to the financial statements, the County of Ontonagon has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. For the fiscal year ended September 30, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Revenue Sharing Fund as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
Major Special Revenue Fund			
Revenue Sharing Fund	\$ 148,600	\$ 153,527	\$ 4,927

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

COUNTY OF ONTONAGON
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Directive: We direct that the county's chief administrative officer, and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, to develop budgetary control procedures for the General Fund and Special Revenue Funds which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Violation of the Open Meetings Act

Finding 06-03

County

Condition: On December 6, 2005, the county board approved to hold a closed session for three grievances from transit employees. On June 20, 2006, the board approved to hold a closed session for a grievance filed by the sheriff union.

Economic Development Corporation

Condition: The minutes did not state who requested the closed session which must be considered as a violation of law.

Criteria: MCL 15.268 Section 8 (b) of the Open Meetings Act states: "A public body may meet in a closed session to consider the dismissal, suspension, or disciplining of, or to hear complaints or charges brought against, or to consider a periodic personnel evaluation of, a public officer, employee, staff member, or individual agent, **if the named person requests a closed hearing**. A person requesting a closed hearing may rescind the request at any time, in which case the matter at issue shall be considered after the rescission only in open sessions." (emphasis added)

MCL 15.267, Section 7 (1) of the Open Meetings Act states, in part: "The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken."

Directive: We direct the county to discontinue holding closed sessions relating to county personnel unless held in accordance with the State law above. If a meeting is held in accordance with the Open Meetings Act, the purpose of the closed session should be clearly defined in the minutes of the board meeting.

Social Security Privacy Act

Finding 06-04

Condition: County officials receive social security numbers from employees and from other individuals for marriage licenses. The information is accessible to individuals without a need for access, which is contrary to the Social Security Privacy Act. The county does not have a policy for complying with the act.

COUNTY OF ONTONAGON
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: Public Act 454 of 2004 prohibits the use of all or more than 4 sequential digits of the social security number as the primary account number for an individual. The Social Security Privacy Act requires an individual's social security number to be kept private from those without a need for access. A written policy is to cover how public officials will comply with the law.

Directive: We recommend that the county develop a policy, by resolution, to maintain privacy of social security numbers that will comply in all respects with the law.

District Court Bond and Trust Account

Finding 06-05

Condition: The 98th District Court maintains a bond and trust bank account as authorized. The activity for bonds and trust items are not recorded in the Trust and Agency Fund of the county. The county treasurer is not an authorized signer on the bank account.

Criteria: MCL 129.11 states: "All money which shall come into the hands of any officer of any county, or of any township, school district, city or village, or of any other municipal or public corporation within this state, pursuant to any provision of law authorizing such officer to collect or receive the same, shall be denominated public money within the meaning of this act."

The county treasurer is designated the custodian of all public money received by county officials. A general ledger is used to account for public money.

Recommendation: We recommend that the county treasurer be an authorized signer on the 98th District Court Bond and Trust bank account. Journal entries should be used to record the monthly activity of the bond and trust bank account in the general ledger. The procedures for depositing and expending amounts from the bank account would otherwise remain the same.

County--Electronic Transactions of Public Funds

Finding 04-04

Condition: Ontonagon County electronically transfers funds for payroll withholdings and other payments without legal authority.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an ACH (Automated Clearing House) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.

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NONCOMPLIANCE WITH STATE STATUTES (Continued)

- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Directive: We direct the county board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

OTHER MATTERS

Sales Tax

Finding 06-06

Condition: During 2006, the airport had fuel sales in excess of \$5,000. The county does not charge sales tax for aviation fuel and other miscellaneous sales.

Criteria: When sales exceed \$5,000 in a given year sales tax is to be charged to the customer. Should sales come close to \$5,000, the entity would have to project what the subsequent year’s expected sales would be and charge sales tax accordingly.

Directive: We recommend that the county charge sales tax on sales of goods and remit to the state as described above. The sales tax should be charged to purchaser and should be credited to account 228.04 when collected and when paid to the state should be debited to 228.04 when paying the monthly sales, use and withholding taxes.

Investment Policy

Finding 06-07

Condition: The county does not have an updated investment policy that contains credit risk assessments and disclosures for investments.

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Recommendation: We recommend that the county formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy. A sample policy was given to the county.

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OTHER MATTERS (Continued)

Board of County Commissioners--Fraud Risk Management Program

Finding 06-08

Condition: The management of the county has not developed a fraud risk management program that is appropriate for the size and complexity of the entity, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: American Institute of Certified Public Accountants, Statement on Auditing Standards, Section AU 110.03 states, in part: "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

We recommend that the county develop a fraud risk management program. We have provided an example Ethical Standards and Standards of Conduct policy fraud policy.

Board of County Commissioners--Conflict of Interest Policy

Finding 06-09

Condition: The county board has not adopted and communicated to employees/elected officials a specific policy on conflict of interest that specifies that personnel in a position of trust are not related to each other; employees are prohibited from having business dealings with companies affiliated with, or acting as major customers or suppliers of the governmental unit; transactions with officials of the governmental unit are adequately controlled and disclosed in the records; and such transactions occur only in the normal course of business and are legally authorized.

Criteria: MCL 15.328 Other laws superseded; local ordinances. Section 8 states: "It is the intention that this act shall constitute the sole law in this state and shall supersede all other acts in respect to conflicts of interest relative to public contracts, involving public servants other than members of the legislature and state officers, including but not limited to section 30 of 1851 PA 156, MCL 46.30. This act does not prohibit a unit of local government from adopting an ordinance or enforcing an existing ordinance relating to conflict of interest in subjects other than public contracts involving public servants."

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Note: MCL 46.30 Section 30 states: “A member of the county board of commissioners shall not be interested directly or indirectly in any contract or other business transaction with the county, or a board, office, or commission thereof, during the time for which he is elected or appointed, nor for one year thereafter unless the contract or transaction has been approved by 3/4 of the members of the county board of commissioners and so shown on the minutes of the board together with a showing that the board is cognizant of the member's interest. This prohibition is not intended to apply to appointments or employment by the county, or its officers, boards, committees, or other authority, which appointments and employment shall be governed by the provisions of section 30a of this act.”

We recommend that the county adopt a conflict of interest policy. We have provided an example conflict of interest policy to the county.